THE INSURANCE COMPANY OF PRINCE EDWARD ISLAND

Annual Report
2012

THE Insurance Company of Prince Edward Island

People you know you can trust

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements are the responsibility of Management and have been prepared in conformity with International Financial Reporting Standards. In the opinion of Management, the financial statements fairly reflect the financial position, results of operations and cash flows of The Insurance Company of Prince Edward Island (the Corporation) within reasonable limits of materiality.

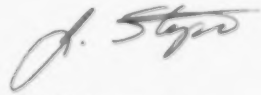
Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities and to issue a report thereon to the shareholders and regulatory authorities. The valuation is carried out in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of Management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors. An Audit Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without Management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

KPMG have been appointed external auditors. Their responsibility is to report to the shareholders and regulatory authorities regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and her report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

Charlie Cooke
President



Jeff Stepan
Chief Financial Officer

February 14, 2013

ACTUARY'S REPORT

To the Shareholders of The Insurance Company of Prince Edward Island

I have valued the policy liabilities and reinsurance recoverables of The Insurance Company of Prince Edward Island for its statement of financial position at December 31, 2012, and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

I am satisified that the data utilized for the valuation of these liabilities is reliable and sufficient. I verified the consistency of the valuation data with the company financial records.

In my opinion, the amount of policy liabilities, net of reinsurance recoverables, makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

Barb Addie
Baron Insurance Services Inc.
Fellow, Canadian Institute of Actuaries
Fellow, Casualty Actuarial Society

February 14, 2013

INDEPENDENT AUDITORS' REPORT

To the Shareholders of The Insurance Company of Prince Edward Island

We have audited the accompanying financial statements of The Insurance Company of Prince Edward Island ("the Entity"), which comprise the statement of financial position as at December 31, 2012, the statement of operations, changes in shareholder's equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Insurance Company of Prince Edward Island as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
Regina, Canada

February 14, 2013

STATEMENT OF FINANCIAL POSITION

	December 31 2012	December 31 2011
	(thousands of $)	
Assets		
Cash and cash equivalents (note 4)	$ 3,739	$ 2,347
Accounts receivable (note 5)	10,652	10,626
Investments under security lending program (note 6)	2,748	2,149
Investments (note 6)	26,767	24,526
Reinsurers' share of unearned premiums (note 10)	434	365
Unpaid claims recoverable from reinsurers (note 8)	4,326	3,257
Property and equipment (note 7)	23	11
Deferred policy acquisition costs (note 9)	2,769	2,525
Deferred tax asset (note 13)	468	474
	$ 51,926	$ 46,280
Liabilities		
Accounts payable and accrued liabilities	$ 5,251	$ 3,261
Notes payable (note 19)	933	1,039
Amounts due to reinsurers	6	281
Unearned reinsurance commissions	122	92
Unearned premiums (note 10)	12,669	11,850
Provision for unpaid claims (note 8)	18,812	18,863
Deferred tax liability (note 13)	67	57
	37,860	35,443
Shareholders' equity		
Share capital (note 11)	4,800	4,800
Retained earnings	9,266	6,037
Total equity	**14,066**	10,837
	$ 51,926	$ 46,280

Commitments and contingencies (note 21)
(see accompanying notes)

Approved by the Board of Directors and signed on their behalf on February 14, 2013

Andrew R. Cartmell
Director

Don Thompson
Director

STATEMENT OF OPERATIONS

year ended December 31	2012	2011
	(thousands of $)	
Gross premiums written	$ 25,161	$ 23,315
Premiums written ceded to reinsurers	(1,938)	(1,721)
Net premiums written	23,223	21,594
Change in net unearned premiums (note 10)	(750)	(649)
Net premiums earned	**22,473**	20,945
Claims incurred (note 8)	10,705	14,722
Commissions	4,501	3,673
Administrative expenses	3,059	2,956
Premium taxes	906	884
Facility Association participation (note 20)	(318)	(131)
Total claims and expenses	**18,853**	22,104
Underwriting profit (loss)	**3,620**	(1,159)
Investment earnings (note 12)	957	813
Income (loss) before income taxes	**4,577**	(346)
Income tax expense (recovery) (note 13)	1,307	(81)
Net income (loss) and comprehensive income (loss)	**$ 3,270**	$ (265)

(see accompanying notes)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

year ended December 31	2012	2011
	(thousands of $)	
Share capital		
Balance, end of year	**$ 4,800**	$ 4,800
Retained earnings		
Balance, beginning of year	$ 6,037	$ 6,350
Net income (loss) and comprehensive income (loss)	3,270	(265)
Dividends (note 11)	(41)	(48)
Balance, end of year	**$ 9,266**	$ 6,037
Total shareholders' equity	**$ 14,066**	$ 10,837

(see accompanying notes)

STATEMENT OF CASH FLOWS

year ended December 31	2012	2011
	(thousands of $)	
Cash provided by (used for):		
Operating activities		
Net income (loss) and comprehensive income (loss)	$ 3,270	$ (265)
Non-cash items:		
Bond amortization	153	170
Depreciation	9	24
Net realized gain on sale of investments	(142)	(279)
Net unrealized loss (gain) on change in market value of investments	(72)	200
Deferred income taxes	16	(115)
Change in non-cash operating items (note 16)	1,105	997
	4,339	732
Investing activities		
Purchases of investments	(24,203)	(21,869)
Proceeds on sale of investments	21,424	21,096
Purchases of property and equipment	(21)	(2)
	(2,800)	(775)
Financing activities		
Dividends paid	(41)	(48)
Repayment of note payable	(106)	(107)
	(147)	(155)
Increase (decrease) in cash and cash equivalents	**1,392**	(198)
Cash and cash equivalents, beginning of year	2,347	2,545
Cash and cash equivalents, end of year	**$ 3,739**	$ 2,347
Supplemental cash flow information:		
Interest received	$ 650	$ 719
Dividends received	$ 18	$ 14
Income taxes paid	$ 99	$ 563

(see accompanying notes)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

1. STATUS OF THE CORPORATION

The Insurance Company of Prince Edward Island (the Corporation, located at 14 Great George Street, Charlottetown, P.E.I.) was incorporated under *The Insurance Company of Prince Edward Island Act* on May 14, 1987. The Corporation is licensed to conduct business in Prince Edward Island, New Brunswick and Nova Scotia and holds provincial insurers' licenses under the *Insurance Act* (PEI), the *Insurance Act* (New Brunswick) and the *Insurance Act* (Nova Scotia).

The Corporation's automobile insurance premium rates are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile insurance premiums represent approximately 67% (2011 - 69%) of the Corporation's net premiums earned.

As a 75% owned subsidiary of SGI CANADA Insurance Services Ltd., the financial results of the Corporation are included in its consolidated financial results and ultimately consolidated into the financial statements of Crown Investments Corporation of Saskatchewan.

2. BASIS OF PREPARATION

Statement of compliance

The financial statements for the year ended December 31, 2012, have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Basis of measurement

The financial statements have been prepared using the historical cost basis except for financial instruments. The methods used to measure the values of financial instruments are discussed further in note 3.

Statement of financial position classification

The statement of financial position has been prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity. The assets and liabilities comprise both current and non-current amounts.

Functional currency and presentation

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency and are rounded to the nearest thousand unless otherwise noted.

Use of estimates and judgment

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 8), and the valuation of accounts receivable (note 5), investments (note 6), and income taxes (note 13).

3. SIGNIFICANT ACCOUNTING POLICIES

Financial assets and liabilities

The measurement basis for financial assets and financial liabilities depends on whether the financial assets and liabilities have been classified as fair value through profit and loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets and liabilities classified as fair value through profit and loss are measured at fair value and changes in fair value are recognized in net income. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income; however, unrealized losses considered other than temporary are recognized as a decrease to net income. Financial assets designated as held to maturity, loans and receivables, or other financial liabilities are measured at amortized cost using the effective interest method. The Corporation has no financial assets and liabilities designated as available for sale or held to maturity.

The Corporation has designated its cash and cash equivalents and investments as fair value through profit and loss. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities and notes payable are designated as other financial liabilities. Unpaid claims recoverable from reinsurers, amounts due to reinsurers, and the provision for unpaid claims are exempt from the above requirement.

Investments

All investments are carried at fair value. The fair value of short-term investments is based on cost, which approximates fair value due to the immediate or short-term nature of these financial instruments. The fair value of bonds and debentures is based on model pricing techniques that effectively discount prospective cash flows to present value, taking into consideration duration, credit quality and liquidity. The fair value of common shares is determined based on quoted market values, based on the latest bid prices. The fair value of pooled equity funds is based on the quoted market values of the underlying investments, based on the latest bid prices.

The Corporation records its investment purchases and sales on a trade-date basis, being the date when the transactions are entered into.

Investments under securities lending program

Securities lending transactions are entered into on a collateralized basis. The securities lent are not derecognized on the statement of financial position given that the risks and rewards of ownership are not transferred from the Corporation to the counterparties in the course of such transactions. The securities are reported separately on the statement of financial position on the basis that the counterparties may resell or re-pledge the securities during the time that the securities are in their possession.

Securities received from counterparties as collateral are not recorded on the statement of financial position given that the risks and rewards of ownership are not transferred from the counterparties to the Corporation in the course of such transactions.

Investment earnings

The Corporation recognizes interest and premium financing revenue as earned, dividends when declared, pooled fund revenue when a distribution is declared, realized gains and losses on investments when the investment has been sold and unrealized gains and losses based on the changes in market value of the investments held.

Interest revenue includes amortization of any premium or discount recognized at the date of purchase of the security. Amortization is calculated using the effective interest method. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base. Interest is generally receivable on a semi-annual basis.

Transaction costs are included in the acquisition cost of individual investments. Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the year-end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized foreign exchange gains and/or losses arising on monetary and non monetary investments designated as fair value through profit and loss are recognized in investment earnings. Unrealized gains and/or losses arising on translation are charged to operations in the current year. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

Premiums written

The Corporation's policies have all been classified upon inception as insurance contracts. An insurance contract is a contract which transfers significant insurance risk and upon the occurrence of the insured event, causes the insurer to make a benefit payment to the insured party. The sale of policies generates premiums written, which are taken into income over the terms of the related policies, no longer than 12 months. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. The estimate includes the cost of reported claims, and claims incurred but not reported, an estimate of adjustment expenses to be incurred on these claims and a provision for adverse deviation in accordance with Canadian Institute of Actuaries standards. The provision has been calculated including the impact of discounting using a discount rate of 1.8% (December 31, 2011 - 2.0%). The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate, no longer than 12 months. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral using a liability adequacy test. The limit is calculated as the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Reinsurance ceded

Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes for the current year. Deferred income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities, as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any deferred income tax asset if it is probable that the asset will not be realized.

Cash and cash equivalents

Cash and cash equivalents consist of money market investments with a maturity of 90 days or less from the date of acquisition, and are presented net of cash on hand less outstanding cheques.

Property and equipment

All classes of property and equipment are recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The depreciation method, the useful lives and the residual values of the assets are reviewed at each reporting date. Repairs and maintenance are charged to the statement of operations in the period in which they have been incurred.

Depreciation is recorded in operations on a straight-line basis, commencing in the year the asset is available to be placed in service, over the estimated useful lives as follows:

Computer hardware and other equipment	3-5 years
Leasehold improvements	5 years

Leased assets

Leases where the Corporation does not assume substantially all of the risks and reward of ownership are classified as operating leases. The payments are expensed as they are incurred.

Future accounting policy changes

The following future changes to accounting standards will have applicability to the Corporation:

Insurance Contracts

IASB issued exposure draft ED/2010/8 Insurance Contracts (the ED) on July 30, 2010. The ED proposes a new standard on accounting for insurance contracts, which would replace IFRS 4, *Insurance Contracts*. The proposals represent the first comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on the financial reporting of insurers. The IASB plans to issue a re-exposure document in the first half of 2013, with implementation not expected before 2016.

Financial Instruments

In November 2009, the IASB issued an exposure draft of IFRS 9, *Financial Instruments*, as part of its plan to replace IAS 39, *Financial Instruments: Recognition and Measurement*.

The new standard requires financial assets to be measured at either fair value or amortized cost, on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A financial asset that is held by an entity for the purpose of collecting contractual cash flows on specified dates per contractual terms should be measured at amortized cost. All other financial assets should be measured at fair value.

For equity instruments, management has an option on initial recognition to irrevocably designate on an instrument-by-instrument basis to present the changes in their fair value directly in equity. There is no subsequent recycling of fair value gains and losses from equity to the Statement of Operations; however, dividends from such equity investments will continue to be recognized in profit or loss.

In November 2012, the IASB issued limited amendments to the exposure draft. The amendments include introduction of a fair value through other comprehensive income (FVOCI) measurement category for simple debt instruments. In this measurement category, the Statement of Financial Position will reflect the fair value carrying amount while amortized cost information is presented in the Statement of Operations. The difference between the fair value and amortized cost information will be recognized in other comprehensive income.

This standard is effective for annual periods beginning on or after January 1, 2015. While early adoption is permitted under the standard, the Office of the Superintendent of Financial Institutions (OSFI) has indicated that early adoption is not allowed. While the Corporation is not federally regulated, it generally follows OSFI's guidance in such matters.

The Corporation is in the process of assessing the impact of the new standard.

Consolidated Financial Statements

IFRS 10, *Consolidated Financial Statements,* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard establishes control as the basis for consolidation and defines control as existing when an entity has power over the investee, is exposed to variable returns from its involvement with the investee, and has the ability to use its power over the investee to affect the returns. This standard is effective for annual periods beginning on or after January 1, 2013. The new standard is not expected to impact the Corporation's financial statements.

Disclosure of Interests in Other Entities

IFRS 12, *Disclosure of Interests in Other Entities,* is a new standard that specifies the minimum disclosures that must be provided for all forms of relationships with others including disclosures to be made in consolidated financial statements. This standard is effective for annual periods beginning on or after January 1, 2013. The new standard is not expected to impact the Corporation's financial statements.

Fair Value Measurement

IFRS 13, *Fair Value Measurement,* was issued by the IASB in May 2011. IFRS 13 replaces the fair value measurement guidance contained in various standards with a single source of fair value measurement guidance. This standard may impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The new standard is not expected to have a material impact on the Corporation's financial statements.

Separate Financial Statements

IAS 27, *Separate Financial Statements,* was issued by the IASB in May 2011. The standard has been revised to remove the requirements relating to consolidated financial statements due to the issuance of IFRS 10. IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates to create one standard to deal with separate financial statements. IAS 27 is effective for annual periods beginning on or after January 1, 2013. The new standard is not expected to impact the Corporation's financial statements.

4. CASH AND CASH EQUIVALENTS

	(thousands of $)	
	2012	2011
Money market investments	$ 45	$ 250
Cash on hand, net of outstanding cheques	3,694	2,097
Total cash and cash equivalents	$ 3,739	$ 2,347

The average effective interest rate on money market investments is 0.8% (2011 - 1.1%).

5. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	(thousands of $)	
	2012	2011
Due from insureds	$ 5,076	$ 4,782
Facility Association (note 20)	2,351	2,355
Due from brokers	1,857	1,758
Due from related parties	787	690
Income taxes receivable	-	535
Due from reinsurers	460	388
Accrued investment income	150	129
Other	23	38
	10,704	10,675
Less: Allowance for doubtful accounts (note 14)	(52)	(49)
Total accounts receivable	$ 10,652	$ 10,626

Included in due from insureds is $4,850,000 (2011 - $4,613,000) of financed premiums receivable, which represents the portion of policyholders' monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment income that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized in investment earnings over the period of the policy using the effective interest method. The effective interest rate is 8.0% (2011 - 8.0%).

Due from brokers includes loans receivable with a carrying value of $588,000 (2011 - $490,000). The loans require annual repayments with terms ranging between one to 10 years. The loans accrue interest at rates ranging from 2.25% to 4.75% and are secured by general security agreements. The loans are recorded at their amortized cost, which is considered to be equal to their fair value.

Due from related parties consists of loans provided to certain parties considered related as a result of family relationships with the minority shareholder. All loans are in the normal course of operations. Cumulatively, the loans require equal annual payments of a maximum $120,000, including principal and interest, with terms ranging between one to 10 years. The loans accrue interest at rates ranging from 2.25% to 5.75% and are secured by general security agreements and personal guarantees from the borrowers. The loans are recorded at their amortized cost, which is considered to be equal to their fair value. During the year, interest revenue of $17,000 (2011 - $14,000) was recorded as investment earnings.

6. INVESTMENTS

The carrying values of the Corporation's investments are as follows:

	(thousands of $)	
	2012	2011
Short-term investments	$ 1,572	$ 2,083
Bonds and debentures	21,610	19,491
Canadian common shares	439	395
Pooled equity funds:		
Canadian	1,876	1,470
United States	633	596
Non-North American	637	491
	26,767	24,526
Investments under securities lending program		
Bonds and debentures	2,748	2,149
Total investments	$ 29,515	$ 26,675

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

Short-term investments

Short-term investments are comprised of money market investments with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 1.1% (2011 - 0.9%) and an average remaining term to maturity of 82 days (2011 - 94 days). The Corporation's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

Bonds and debentures

The Corporation's investment policy states that the minimum quality standard for purchase of bonds and debentures is BBB, as rated by a recognized credit rating service.

The Corporation's investment policy limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio. No more than 10% of the market value of the bond portfolio shall be invested in securities of foreign issuers.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	(thousands of $)			
	2012		2011	
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
One or less	$ 1,586	1.1%	$ 2,144	1.1%
After one through five	8,700	1.4%	8,613	1.3%
Canadian provincial & municipal:				
One or less	337	1.3%	259	1.2%
After one through five	5,259	1.6%	2,577	1.4%
Canadian corporate:				
After one through five	7,506	2.0%	6,131	2.3%
After five	970	3.7%	1,916	4.0%
Total bonds and debentures	$ 24,358		$ 21,640	

Canadian common shares

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. The average effective dividend rate is 4.0% (2011 - 4.1%).

Pooled funds

The Corporation owns units in Canadian, United States and non-North American pooled equity funds that have no fixed distribution rate. Fund returns are based on the success of the fund managers.

Securities lending program

Through its custodian, the Corporation participates in an investment securities lending program for the purpose of generating fee income. Non-cash collateral of at least 102% of the market value of the loaned securities is retained by the Corporation until the loaned securities have been returned. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

At December 31, 2012, the Corporation held collateral of $2,885,000 (2011 - $2,256,000) for the loaned securities.

Determination of fair value

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation. The Corporation's pooled equity funds and common shares are measured at fair value using quoted market prices, which is considered level 1, the highest level of reliability of fair value. Short-term investments and bonds and debentures are considered level 2. During the year, no investments were transferred between levels.

7. PROPERTY AND EQUIPMENT

The components of the Corporation's investment in property and equipment, as well as related depreciation, are as follows:

	(thousands of $)		
	Computer Hardware and Other Equipment	Leasehold Improvements	Total
Cost:			
At January 1, 2012	$ 121	$ 92	$ 213
Additions	21	-	21
At December 31, 2012	142	92	234
Depreciation:			
At January 1, 2012	117	85	202
Provided in the year	2	7	9
At December 31, 2012	119	92	211
Net book value at December 31, 2012	$ 23	$ -	$ 23

	(thousands of $)		
	Computer Hardware and Other Equipment	Leasehold Improvements	Total
Cost:			
At January 1, 2011	$ 119	$ 92	$ 211
Additions	2	-	2
At December 31, 2011	121	92	213
Depreciation:			
At January 1, 2011	111	67	178
Provided in the year	6	18	24
At December 31, 2011	117	85	202
Net book value at December 31, 2011	$ 4	$ 7	$ 11

Depreciation for the year is $9,000 (2011 - $24,000) and is included in administrative expenses on the statement of operations.

8. CLAIMS INCURRED AND PROVISION FOR UNPAID CLAIMS

Claims incurred

(thousands of $)

	2012			2011		
	Current year	Prior years	Total	Current year	Prior years	Total
Gross claims incurred	$ 13,519	$ 220	$ 13,739	$ 17,020	$ (777)	$ 16,243
Ceded claims incurred	(1,223)	(1,811)	(3,034)	(824)	(697)	(1,521)
Net claims incurred	$ 12,296	$ (1,591)	$ 10,705	$ 16,196	$ (1,474)	$ 14,722

Current year claims relate to events that occurred in the current financial year. Prior year claims incurred relate to adjustments for the reassessment of the estimated cost for claim events that occurred in all previous financial periods.

Ceded claims incurred represent an estimate of the recoverable cost of those claims transferred to the Corporation's various reinsurers pursuant to reinsurance contracts.

Net provision for unpaid claims

(thousands of $)

	2012	2011
Net unpaid claims, beginning of year – discounted	$ 15,606	$ 13,245
Discount, beginning of the year	(685)	(367)
Net unpaid claims, beginning of year – undiscounted	14,921	12,878
Payments made during the year relating to:		
Prior year claims	(3,784)	(3,456)
Prior year Facility Association claims	(209)	(324)
Deficiency (excess) relating to:		
Prior year estimated unpaid claims	(1,591)	(1,474)
Prior year estimated unpaid Facility Association claims	(118)	39
Net unpaid claims, prior years – undiscounted	9,219	7,663
Provision for claims occurring in the current year	4,150	6,789
Provision for Facility Association claims occurring in the current year	439	469
Net unpaid claims, end of year – undiscounted	13,808	14,921
Discount, end of year	678	685
Net unpaid claims, end of year – discounted	$ 14,486	$ 15,606

The net provision for unpaid claims of $14,486,000 (2011 – $15,606,000) consists of the gross provision for unpaid claims of $18,812,000 (2011 – $18,863,000) less unpaid claims recoverable from reinsurers of $4,326,000 (2011 – $3,257,000).

The provision for unpaid claims and unpaid claims recoverable from reinsurers are carried on a discounted basis. The resulting carrying amount is considered to be an indicator of fair value as there is no ready market for trading insurance contract liabilities.

9. DEFERRED POLICY ACQUISITION COSTS

	(thousands of $)	
	2012	2011
Deferred policy acquisition costs, beginning of the year	$ 2,525	$ 2,364
Acquisition costs deferred during the year	4,854	4,433
Previously deferred acquisition costs charged to operations during the year	(4,610)	(4,272)
Deferred policy acquisition costs, end of the year	$ 2,769	$ 2,525

10. UNEARNED PREMIUMS

	(thousands of $)					
	Gross Unearned Premiums		Reinsurer's Share of Unearned Premiums		Net Unearned Premiums	
	2012	2011	2012	2011	2012	2011
Unearned premiums beginning of the year	$ 11,850	$ 11,150	$ 365	$ 314	$ 11,485	$ 10,836
Premiums written during the year	25,161	23,315	1,938	1,721	23,223	21,594
Premiums earned	(24,342)	(22,615)	(1,869)	(1,670)	(22,473)	(20,945)
Change in net unearned premiums	819	700	69	51	750	649
Unearned premiums end of the year	$ 12,669	$ 11,850	$ 434	$ 365	$ 12,235	$ 11,485

11. SHARE CAPITAL

Authorized:

30,000,000 common shares with no par value.

6,000 class A, Series 1 preferred shares with a par value of $100 per share, cumulative dividend paid as determined by the Board of Directors at a rate equal to the five-year Government of Canada bond rate plus 1% per annum adjusted pro rata if redemption takes place prior to the annual anniversary date of issuance. The Corporation may redeem the shares in whole or part at any time for $100 per share. There are no retraction rights.

10,000 class A, Series 2 preferred shares with a par value of $100 per share, cumulative dividend paid as determined by the Board of Directors at a rate equal to the five-year Government of Canada bond rate plus 1% per annum adjusted pro rata if redemption takes place prior to the annual anniversary date of issuance. The Corporation may redeem the shares in whole or part at any time for $100 per share. There are no retraction rights.

2,484,000 class A, Series 3 preferred shares with a par value of $100 per share, no set dividend rate, retraction or redemption rights.

5,000 class B, Series 2 preferred shares with a par value of $100 per share, no set dividend rate, retraction or redemption rights.

2,495,000 class B, preferred shares with a par value of $100 per share, no set dividend rate, retraction or redemption rights.

	(thousands of $)	
Issued and fully paid:	2012	2011
3,000,000 common shares	$ 3,000	$ 3,000
4,000 class A preferred shares, series 1	400	400
10,000 class A preferred shares, series 2	1,000	1,000
4,000 class B preferred shares, series 2	400	400
Total share capital	$ 4,800	$ 4,800

The following summarizes dividends by share classification:

	(thousands of $)			
	2012		2011	
	Dividends in Arrears	Dividends Paid	Dividends in Arrears	Dividends Paid
Class A preferred shares, series 1	$ 9	$ 12	$ 12	$ 14
Class A preferred shares, series 2	24	29	29	34
	$ 33	$ 41	$ 41	$ 48

12. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of $)	
	2012	2011
Interest	$ 519	$ 573
Premium financing	199	159
Net realized gain on sale of investments	142	279
Pooled equity fund distributions	75	53
Net unrealized gain (loss) on change in market value of investments	72	(200)
Dividends	17	16
Total investment earnings	1,024	880
Investment expenses	(67)	(67)
Net investment earnings	$ 957	$ 813

13. INCOME TAXES

The Corporation's provision for income taxes is as follows:

	(thousands of $)	
	2012	2011
Current	$ 1,291	$ 34
Deferred	16	(115)
Income tax expense (recovery)	$ 1,307	$ (81)

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes.

The reasons for the differences are as follows:

	(thousands of $)	
	2012	2011
Income (loss) before income taxes	$ 4,577	$ (346)
Combined federal and provincial tax rate	28.72%	30.47%
Computed tax expense (recovery) based on combined rate	$ 1,315	$ (105)
Increase (decrease) resulting from:		
Investment earnings not subject to taxation	(19)	(14)
Changes in enacted tax rates	1	27
Non-deductible expenses for tax purposes	8	10
Other	2	1
Total income tax expense (recovery)	$ 1,307	$ (81)

The combined federal and provincial tax rate is calculated by taking the federal tax rate added to the tax rate of the individual provinces on a pro-rata basis. During 2012 there has been a decrease in the combined tax rates to 28.72% from 30.47%, primarily as a result of federal legislation which decreased the federal rate in 2012.

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are presented below:

	(thousands of $)		
Deferred Tax Asset	Provision for unpaid claims	Other	Total
At January 1, 2011	$ 347	$ 14	$ 361
Credit reflected in income tax expense	111	2	113
At December 31, 2011	458	16	474
Credit (charge) reflected in income tax expense	(3)	(3)	(6)
At December 31, 2012	$ 455	$ 13	$ 468

	(thousands of $)		
Deferred Tax Liability	Unpaid claims recoverable from reinsurers	Investments	Total
At January 1, 2011	$ 39	$ 20	$ 59
Charge (credit) reflected in income tax expense	8	(10)	(2)
At December 31, 2011	47	10	57
Charge (credit) reflected in income tax expense	15	(5)	10
At December 31, 2012	$ 62	$ 5	$ 67

14. INSURANCE AND FINANCIAL RISK MANAGEMENT

Insurance risk arises with respect to the adequacy of the Corporation's insurance premium rates and provision for unpaid claims (consisting of underwriting and actuarial risks). The nature of insurance operations also result in significant financial risks, as the Corporation's statement of financial position consists primarily of financial instruments. The financial risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Insurance Risk

Underwriting risk

The Corporation manages its insurance risk through its underwriting and reinsurance strategies within an overall strategic planning process. Pricing is based on assumptions with regards to past experiences and trends. Exposures are managed by having documented underwriting limits and criteria, product and geographic diversification and reinsurance.

Diversification

The Corporation writes property, liability and motor risks over a 12-month period. The most significant risks arise from weather-related events, such as severe summer storms. The Corporation attempts to mitigate risk by offering different lines of insurance products across three Maritime provinces.

The concentration of insurance risk by line of business is summarized below by reference to unpaid claims liabilities:

	(thousands of $)					
	Gross		Reinsurance Recoverable		Net	
	2012	2011	2012	2011	2012	2011
Automobile	$ 12,731	$ 11,961	$ 3,715	$ 2,773	$ 9,016	$ 9,188
Property	1,773	2,754	443	368	1,330	2,386
Liability	1,773	1,786	-	-	1,773	1,786
Facility Association (note 20)	1,689	1,561	-	-	1,689	1,561
Discount	846	801	168	116	678	685
Total	$ 18,812	$ 18,863	$ 4,326	$ 3,257	$ 14,486	$ 15,606

The concentration of insurance risk by location is summarized below by reference to unpaid claims liabilities:

	(thousands of $)					
	Gross		Reinsurance Recoverable		Net	
	2012	2011	2012	2011	2012	2011
Prince Edward Island	$ 10,190	$ 9,852	$ 3,011	$ 2,314	$ 7,179	$ 7,538
New Brunswick	5,957	5,607	1,048	638	4,909	4,969
Nova Scotia	2,665	3,404	267	305	2,398	3,099
Total	$ 18,812	$ 18,863	$ 4,326	$ 3,257	$ 14,486	$ 15,606

Reinsurance

The Corporation also seeks to reduce losses that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk with SGI CANADA and other insurers. The policy of underwriting and reinsuring contracts of insurance limits the liability of the Corporation to a maximum amount on any one loss as follows:

	(thousands of $)	
	2012	2011
General liability and property	$ 250	$ 250
Automobile – liability	250	250
Catastrophe – automobile physical damage	500	500
Catastrophe – other	500	500

The Corporation evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency. The following table sets out the amount by which reinsurance ceded has reduced the premiums earned, claims incurred, commissions and premium taxes:

	(thousands of $)	
	2012	2011
Premiums earned	$ 1,869	$ 1,670
Claims incurred	3,034	1,521
Commissions and premium taxes	136	118

Actuarial Risk

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the year-end date.

The significant assumptions used to estimate the provision include: the Corporation's experience with similar cases, historical claim payment trends and claim development patterns, the characteristics of each class of business, claim severity and claim frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a number of individuals, which necessarily involves risk that actual results may differ materially from the estimates.

The following table shows the development of the estimated net provision for unpaid claims relative to the current estimate of ultimate claims costs for the six most recent accident years as estimated at each reporting date.

(thousands of $)

	2007	2008	2009	2010	2011	2012	Total
Net Ultimate Loss							
At end of accident year	$ 6,574	$ 8,427	$ 11,088	$ 11,445	$ 14,434	$ 10,895	
One year later	4,483	6,882	9,868	10,653	13,979		
Two years later	3,951	6,627	9,234	10,328			
Three years later	3,907	6,551	8,643				
Four years later	3,988	6,544					
Five years later	3,829						
Cumulative loss development	(2,745)	(1,883)	(2,445)	(1,117)	(455)	n/a	
Cumulative loss development as a % of original ultimate loss	-41.8%	-22.3%	-22.1%	-9.8%	-3.2%	n/a	
Current estimate of net ultimate loss	$ 3,829	$ 6,544	$ 8,643	$ 10,328	$ 13,979	$ 10,895	$ 54,218
Cumulative paid	(3,524)	(6,091)	(7,869)	(8,476)	(10,188)	(6,688)	(42,836)
Net provision for unpaid claims for the six most recent accident years	$ 305	$ 453	$ 774	$ 1,852	$ 3,791	$ 4,207	$ 11,382
Reconciliation							
Facility Association							1,689
Net undiscounted claims outstanding for accident years 2006 and prior							672
Provision for adverse deviation and discounting							678
Other reconciling items							45
Gross subrogation recoveries							20
Net provision for unpaid claims							$ 14,486

Financial Risk

The nature of the Corporation's operations result in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Corporation's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by the Corporation's Board of Directors. The SIP&G provides guidelines to the investment manager for the asset mix of the portfolio regarding quality and quantity of debt, real estate and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. The Corporation receives regular reporting from the investment manager and custodian regarding compliance with the SIP&G. The investment manager's performance is evaluated based on return objectives, including realized and unrealized capital gains and losses plus income from all sources, and goals stated in the SIP&G.

Credit risk

The Corporation's credit risk arises primarily from two distinct sources: accounts receivable (from its customers, brokers and reinsurers) and certain investments. The maximum credit risk to which it is exposed at December 31, 2012, is limited to the carrying value of the financial assets recognized as follows:

	(thousands of $)	
	2012	2011
Cash and cash equivalents	$ 3,739	$ 2,347
Accounts receivable	10,652	10,626
Fixed income investments [1]	25,930	23,723
Unpaid claims recoverable from reinsurers	4,326	3,257

[1] Includes short-term investments and bonds and debentures

Cash and cash equivalents include money market investments of $45,000 plus cash on hand, net of outstanding cheques of $3,694,000 (2011 - money market investments of $250,000 plus cash on hand, net of outstanding cheques of $2,097,000). The money market investments mature within 90 days from the date of acquisition and have a credit rating of R-1.

Accounts receivable are primarily from customers, diversified among residential and commercial, along with amounts from the Facility Association (note 20) and from brokers. Accounts receivable consist of balances outstanding for one year or less.

	(thousands of $)	
	2012	2011
Current	$ 10,644	$ 10,610
30 - 59 days	2	6
60 - 90 days	12	10
Greater than 90 days	46	49
Subtotal	10,704	10,675
Allowance for doubtful accounts	(52)	(49)
Total	$ 10,652	$ 10,626

Provisions for credit losses are maintained in an allowance account and are regularly reviewed by the Corporation. Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance account are as follows:

	(thousands of $)	
	2012	2011
Allowance for doubtful accounts, opening balance	$ 49	$ 39
Accounts written off	(20)	(80)
Current period provision	23	90
Allowance for doubtful accounts, ending balance	$ 52	$ 49

Credit risk within investments is related primarily to short-term investments and bonds and debentures. It is managed through the investment policy that limits debt instruments to those of high credit quality (minimum rating for bonds and debentures is BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit ratings for the bond and debenture investments are as follows:

	(thousands of $)			
	2012		2011	
Credit Rating	Fair Value	Makeup of Portfolio	Fair Value	Makeup of Portfolio
AAA	$ 11,115	45.6%	$ 11,226	51.9%
AA	7,081	29.1%	5,193	24.0%
A	4,996	20.5%	4,034	18.6%
BBB	1,166	4.8%	1,187	5.5%
Total	$ 24,358	100.0%	$ 21,640	100.0%

Within bond and debentures investments, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 10% of the market value of the combined bond and short-term investment portfolios. No one holding of a province is over 20% of the market value of the bond portfolio.

Credit risk associated with reinsurers is managed through regular monitoring of credit ratings of the reinsurers utilized by the Corporation. Reinsurers' credit ratings range from AA+ to A- based on the most recent ratings by A.M. Best.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Corporation is exposed to changes in interest rates in its fixed income investments, including short-term investments, bonds and debentures and the mortgage pooled fund. Changes in interest rates also impact the provision for unpaid claims and unpaid claims recoverable from reinsurers. The impact that a change in interest rates has on investment income will be partially offset by the impact the change in interest rates has on discounting of claims incurred.

It is estimated that a 100 basis point increase/decrease in interest rates would have the following impact:

	(thousands of $)			
	100 basis point increase		100 basis point decrease	
	2012	2011	2012	2011
Investment earnings	$ (568)	$ (491)	$ 568	$ 491
Claims incurred	(360)	(357)	360	357
Net income (loss)	(208)	(134)	208	134

Foreign exchange

The Corporation is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. pooled equity fund, purchases of goods and services that are denominated in U.S. dollars, and a portion of claims and reinsurance receivables and payables denominated in U.S. dollars. Also, the Corporation is exposed to EAFE (Europe, Australasia and Far East) currencies through its investment in the non-North American pooled equity fund. Exposure to both the U.S. equity and non-North American equity markets is limited to a maximum 4% each of the market value of the total investment portfolio. At December 31, 2012, the Corporation's exposure to U.S. equities, through its U.S. equity pooled fund, was 2.1% (2011 - 2.2%) and its exposure to non-North American equities, through its non-North American equity pooled fund was 2.2% (2011 - 1.8%).

At December 31, 2012, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $63,000 (2011 - $60,000) decrease/increase in net income and retained earnings. A 10% appreciation/depreciation in the Canadian dollar versus the EAFE currencies would result in approximately a $64,000 (2011 - $49,000) decrease/increase in net income and retained earnings.

There is no exposure to foreign exchange risk within the Corporation's bond and debenture portfolio. As well, no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers.

The Corporation's exposure to exchange rate risk resulting from the purchase of goods and services, and claims and reinsurance receivables and payables, are not considered material to the operations of the Corporation.

Equity prices

The Corporation is exposed to changes in equity prices in Canadian, U.S. and EAFE markets through its investment in pooled equity funds and Canadian common shares. Pooled equity funds and Canadian common shares comprise 12.1% (2011 - 11.1%) of the carrying value of the Corporation's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Corporation's investments. As well, no one holding represents more than 10% of the voting shares of any corporation.

The Corporation's equity price risk is assessed using Value at Risk (VaR), a statistical technique that measures the potential change in the value of an asset class. The VaR has been based on volatility over a four-year period, using a 95% confidence level. As such, it is expected that the annual change in the portfolio market value will fall within the range outlined in the following table 95% of the time (19 times out of 20 years).

	(thousands of $)	
Asset Class	2012	2011
Canadian pooled equity fund and Canadian common shares	$ +/- 810	$ +/- 753
U.S. pooled equity fund	+/- 153	+/- 161
Non-North American pooled equity fund	+/- 208	+/- 175

The Corporation's pooled equity funds are classified as fair value through profit and loss and as such, any unrealized changes in their fair value are recorded in the statement of operations.

No derivative financial instruments have been used to alter the effects of market changes and fluctuations.

Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. The majority of financial liabilities, excluding certain unpaid claims liabilities, are short-term in nature, due within one year. The Corporation generally maintains positive overall cash flows through cash generated from operations as well as cash generated from its investing activities.

The following summarizes the estimated contractual maturities of the Corporation's financial assets and liabilities at December 31:

(thousands of $)	2012						
	Carrying amount	No stated maturity	0-6 months	7-12 months	1-2 years	3-5 years	More than 5 years
Financial assets							
Accounts receivable	$ 10,652	$ -	$ 6,895	$ 2,563	$ 110	$ 491	$ 593
Investments	29,515	3,584	3,287	208	2,725	18,741	970
Unpaid claims recoverable from reinsurers	4,326	-	976	553	889	1,607	301
	$ 44,493	$ 3,584	$ 11,158	$ 3,324	$ 3,724	$ 20,839	$ 1,864
Financial liabilities							
Accounts payable and accrued liabilities	$ 5,251	$ -	$ 5,251	$ -	$ -	$ -	$ -
Notes payable	933	-	108	-	110	346	369
Amounts due to reinsurers	6	-	6	-	-	-	-
Provision for unpaid claims	18,812	-	3,684	2,385	3,584	6,827	2,332
	$ 25,002	$ -	$ 9,049	$ 2,385	$ 3,694	$ 7,173	$ 2,701

(thousands of $)	2011						
	Carrying amount	No stated maturity	0-6 months	7-12 months	1-2 years	3-5 years	More than 5 years
Financial assets							
Accounts receivable	$ 10,626	$ -	$ 7,369	$ 2,250	$ 291	$ 346	$ 370
Investments	26,675	2,952	4,278	209	4,073	13,247	1,916
Unpaid claims recoverable from reinsurers	3,257	-	668	452	614	1,247	276
	$ 40,558	$ 2,952	$ 12,315	$ 2,911	$ 4,978	$ 14,840	$ 2,562
Financial liabilities							
Accounts payable and accrued liabilities	$ 3,261	$ -	$ 3,261	$ -	$ -	$ -	$ -
Notes payable	1,039	-	129	-	129	258	523
Amounts due to reinsurers	281	-	281	-	-	-	-
Provision for unpaid claims	18,863	-	4,231	2,462	3,233	6,723	2,214
	$ 23,444	$ -	$ 7,902	$ 2,462	$ 3,362	$ 6,981	$ 2,737

15. CAPITAL MANAGEMENT

The Corporation's primary objectives when managing capital are to ensure adequate funding is available to pay policyholder claims, be flexible in its product offerings and support its growth strategies, while providing an adequate return to its shareholder. Its main sources of capital are retained earnings and share capital. There were no changes to the Corporation's capital structure during the period.

The Corporation uses a common industry measurement, the Minimum Capital Test (MCT), to monitor its capital adequacy. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off-balance sheet exposures by applying various factors to determine a ratio of capital available over capital required.

The Corporation is a regulated insurer, and as such, is subject to rate regulation related to its automobile premiums. Regulators require insurers to maintain a level of capital sufficient to achieve an MCT of 150%. At December 31, 2012, the Corporation's MCT was 347% (2011 - 269%). There have been no changes to the Corporation's capital management processes and measures since the prior year-end.

16. CHANGE IN NON-CASH OPERATING ITEMS

The change in non-cash operating items is comprised of the following:

	(thousands of $)	
	2012	2011
Accounts receivable	$ (26)	$ (992)
Deferred policy acquisition costs	(244)	(161)
Reinsurers' share of unearned premiums	(69)	(51)
Unpaid claims recoverable from reinsurers	(1,069)	(808)
Accounts payable and accrued liabilities	1,990	(950)
Amounts due to reinsurers	(275)	75
Unearned reinsurance commissions	30	15
Unearned premiums	819	700
Provision for unpaid claims	(51)	3,169
	$ 1,105	$ 997

17. EMPLOYEE SALARIES AND BENEFITS

The Corporation incurs salaries and benefits expenses. It allocates expenses incurred to the various operating functions, and has therefore included the various employee salaries and benefits expenses in different line items on the statement of operations, including claims incurred and administrative expenses. The total salaries and benefits expenses incurred during the year are as follows:

	(thousands of $)	
	2012	2011
Salaries	$ 711	$ 700
Benefits	85	88
Total salaries and benefits	$ 796	$ 788

18. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties"). All transactions are settled at prevailing market prices under normal trade terms.

The Corporation has elected to take a partial exemption under IAS 24 *Related Party Disclosures* which allows government related entities to limit the extent of disclosures about related party transactions with government or other government related entities.

The Corporation has direct premiums brokered through Charlie Cooke Insurance Agency Ltd. (CCIA), pays claims adjusting fees to Atlantic Adjusting & Appraisals Ltd. (AAA) and has premiums financed for policyholders administered by Maritime Finance & Acceptance Corporation (MFAC). These companies are affiliated with the minority shareholder, who is a member of the Corporation's senior management. The policies written and the claim adjusting expenses paid are routine operating transactions in the normal course of business.

Transactions and amounts outstanding between the Corporation and CCIA, AAA and MFAC are as follows:

	(thousands of $)	
Category	2012	2011
Accounts receivable	$ 844	$ 797
Accounts payable and accrued liabilities	634	156
Premiums written	13,862	13,127
Claims incurred	788	762
Commissions	2,598	2,045
Premiums financed	12,274	11,162
Administration fees paid to MFAC	198	202

SGI CANADA, the Corporation's ultimate majority shareholder, provides administrative services to the Corporation as well as being one of its reinsurers (note 14). Administrative expenses charged to the Corporation were $1,278,000 (2011 - $1,120,000). Reinsurance ceded to SGI CANADA has reduced premiums earned by $957,000 (2011 - $814,000) and reduced claims incurred by $2,122,000 (2011 - $1,321,000).

Key management personnel compensation

Key management personnel are those individuals having authority over the Corporation's planning, directing and controlling activities. Certain of the individuals performing these functions are executive employees of the Corporation's parent, SGI CANADA. Compensation for these individuals is paid by SGI CANADA and a portion allocated to the Corporation on the basis of a cost allocation formula.

	(thousands of $)	
	2012	2011
Salaries and other short-term employee benefits	$ 273	$ 302
Post-employment benefits	27	26
	$ 300	$ 328

Other related party transactions are described separately in the notes to the financial statements.

19. NOTES PAYABLE

In 2010, the Corporation issued promissory notes with a par value of $1,146,000 to the primary shareholders in CCIA. The promissory notes were subsequently assigned to the Corporation's parent, SCISL, as consideration in the sale of SCISL's minority interest in CCIA. The promissory notes are demand notes, accruing interest at an annual effective interest rate of 2.25%. The fair value of the promissory notes approximates their book value.

20. FACILITY ASSOCIATION PARTICIPATION

The Corporation is a participant in automobile residual market and risk-sharing pools, whereby companies in the industry are required by regulation to provide automobile insurance coverage to high-risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	(thousands of $)	
	2012	2011
Gross premiums written	$ 1,443	$ 1,481
Net premiums earned	$ 1,377	$ 1,379
Claims incurred	665	864
Commissions	111	114
Premium taxes	47	47
Administrative expenses	295	275
Total claims and expenses	1,118	1,300
Underwriting profit	259	79
Investment earnings	59	52
Net income	$ 318	$ 131
Facility Association receivable	$ 2,351	$ 2,355
Unearned premiums	609	544
Facility Association payable	1,980	1,980
Provision for unpaid claims	1,689	1,561

21. COMMITMENTS AND CONTINGENCIES

The Corporation is committed to annual payments under operating leases for buildings as follows:

	(thousands of $)
2013	$ 101
2014	102
2015	103
2016	104
2017	104

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business. The Corporation is of the opinion that this litigation will not have a significant effect on the financial position or results of operation of the Corporation.

22. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2011 balances have been reclassified to conform to 2012 financial statement presentation.